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SENSITIVE

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TREASURY FOR OREN WYCHE-SHAW
PASS USTR FLORIZELLE LISER
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E. O. 12958: N/A
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SUBJECT: Tobacco Merchant Adjusts to Post-Land Reform
Zimbabwe

Summary

1. (SBU) Executives of U.S. tobacco merchant Dimon forecast Zimbabwe will experience another frustrating harvest in 2005, as the firm's buying continues to shift away from the auction floors and toward contract growing. Dimon does not believe it can revive the interest of Philip Morris and JT International in Zimbabwean tobacco until stability returns to the sector. Dimon's representatives insisted that they have purchased no tobacco from farms belonging to sanctioned entity Zimbabwe Defense Industries (ZDI).

Dimon's Predictions

2. (SBU) Econchief recently met with three executives from Dimon, which has had an enormous presence in the Zimbabwean tobacco market since 1980. The merchant will purchase and resell to cigarette-makers 32 percent of the country's tobacco this year. Judging from the seedbeds already in the ground, the Dimon reps estimate that next year's harvest may match but not exceed this year's 65-70 million kgs, Zimbabwe's lowest output since 1979. They have found small Zimbabwean tobacco farms only twenty percent as productive as the former commercial farms, yielding 800 versus 4,000 kgs/hector.

3. (SBU) The executives predict that the country's famous auction floors will gradually disappear over the next five years. Contract growing, already accounting for half of Dimon's purchases in Zimbabwe, will replace the auctions. Through contract schemes, merchants like Dimon can provide cash-strapped small growers with inputs. Similar arrangements are now the norm in Zimbabwe's cotton sector.

4. (SBU) Since the GOZ began fast-track land reform in 2001, Dimon says it has been unable to sell Zimbabwe-grown tobacco to Philip Morris and JT International. These large cigarette-makers have mostly replaced Zimbabwean with Brazilian tobacco. According to the Dimon reps, Philip Morris and JT International are unwilling to take a chance on Zimbabwe until long-term stability returns to the farming sector.

U.S. Sanctions on Zimbabwe Defense Industries

5. (SBU) The executives said they have not purchased tobacco from farms owned by Zimbabwe Defense Industries (ZDI), which the Department Treasury's Office of Foreign Asset Control (OFAC) has designated as a sanctions target. They acknowledged that they have been working with Salt Lake City-based Sentry Financial and Reserve Bank (RBZ) Governor Gideon Gono's CBZ/Jewel Bank in a tobacco-for-grain swap. The Dimon reps asked that the Embassy keep them informed about any new financial sanctions designations.

Overzealous Tax Authorities

6. (SBU) The executives complained that the Zimbabwe Revenue Authority (ZIMRA) has aggressively harassed them since March. ZIMRA has searched their offices, confiscated their records and assessed a bill for US\$1 million in delinquent taxes. For the first time, ZIMRA applied an unused section of its tax code, claiming Dimon should have paid taxes on marketing expenses, including commissions to sales agents outside the country. Dimon reps say they will dispute these charges with RBZ Governor Gono. If unsuccessful, they said they may request Embassy advocacy assistance.

Comment

7. (SBU) Tragically, the GOZ undertook its confiscation of large tobacco farms just after the sector hit a new production record - 238 million kgs in 2000. For one

brief year, little Zimbabwe became the world's top tobacco exporter, beating the U.S., Brazil, China and India. Considering the loss of jobs an